



NATIXIS Research Presentation

Deglobalisation in the context of US-China decoupling

Alicia Garcia Herrero – Chief Economist Asia Pacific
+852 3900 8680 – alicia.garciaherrero@natixis.com

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Roadmap to presentation

- De-globalisation in trade
- Global value chains
- US-China decoupling & Technology protectionism
- People to people globalization
- Financial deglobalization

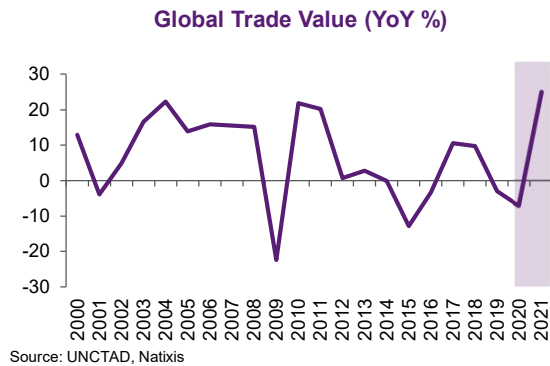
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De-globalisation in trade

A slowing of global trade flows has been evident since the global financial crisis. Before the pandemic, the US-China trade war and a series of protectionist measures could be one reason. The trend has accelerated since 2019 Covid outbreak.



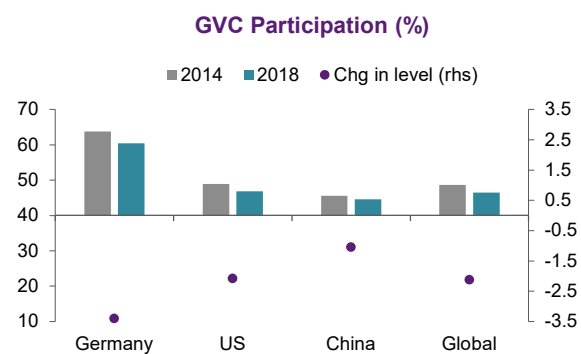
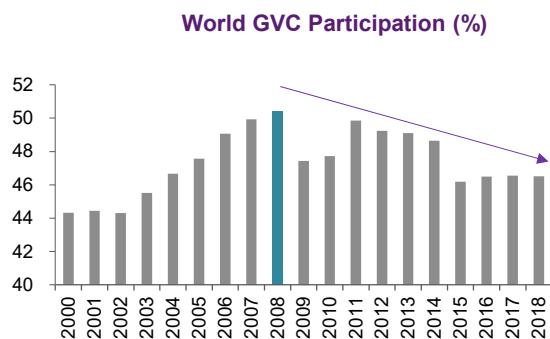
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Global value chains (GVC)

If GVC integration is measured by the value of intermediate goods that are either imported to be re-exported, there has been a net decline since 2008. The decline has been much more significant for Germany, than for the US and China.



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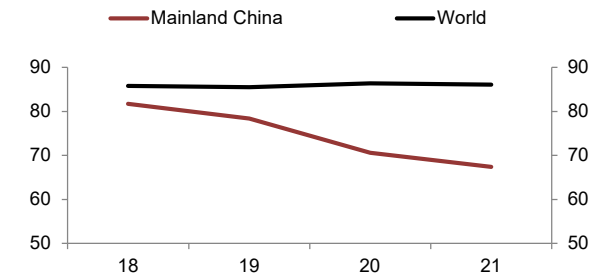
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US-China decoupling & Technology protectionism

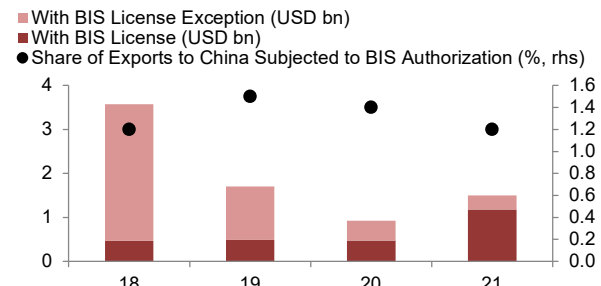
The geopolitical tension climbs over the years, approval rate of export licenses by the BIS for China declined. The good exported to China subjected to BIS authorization also fell, with more goods requiring license and no longer exemption.

US: Approval Rate for Export Licenses (%)



Source: Natixis, US Department of Commerce's Bureau of Industry and Security (BIS)

US: Export Licenses for Mainland China



Source: Natixis, US Department of Commerce's Bureau of Industry and Security (BIS)

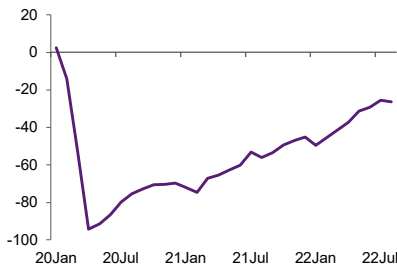
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People to people globalization

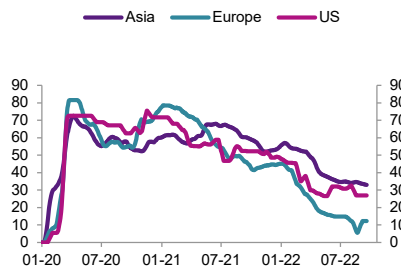
International aviation collapsed in 2020. Suppression measures have begun to ease since mid-2021, led by Europe and the US, and with Asia started to catch up recently. July data shows APAC airlines have only returned to 30% of 2019 on average, and Asia's recovery is expected to become quicker.

International flight passenger (% over 2019)



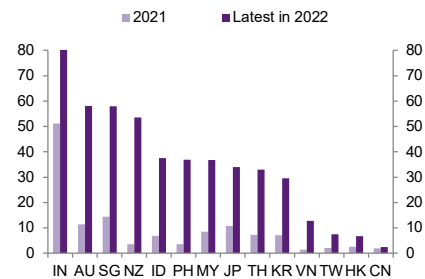
Source: Natixis, IATA

Covid-19 Stringency Index



N.B. Data as of October 3, 2022. 15 days moving average used. China (Mainland), Indonesia, India, Japan, South Korea, Malaysia, Philippines, Singapore, Thailand, Vietnam, Hong Kong and Taiwan are used as Asia proxies. Germany, UK and US are used as Europe proxies. Source: Natixis, OxCGR

Asia's Airports: International Passenger (% of 2019)



N.B. Data as of July 2022 unless specified. Data as of June 2022 for Indonesia and the Philippines. Source: Natixis, Various Airport Authorities

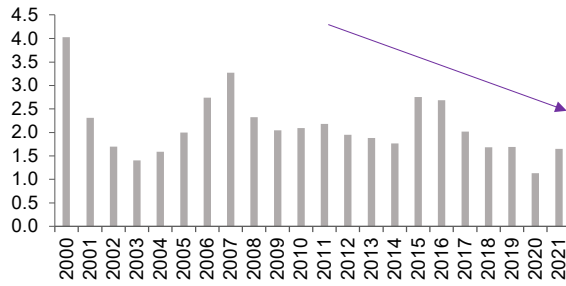
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Financial deglobalization (1/2)

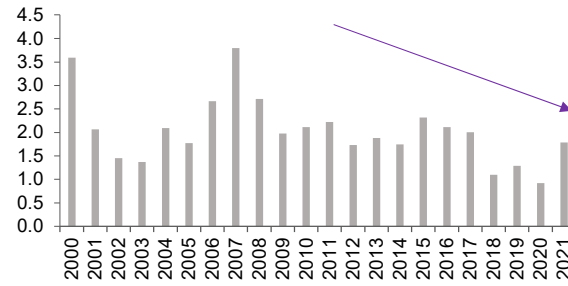
Increasingly, there are some early signs of financial deglobalisation. This has become more noticeable as the confrontation between the US and China has moved beyond trade with a growing number of conflicts in the financial sector.

World inward FDI flow (% to GDP)



Source: UNCTAD

World outward FDI flow (% to GDP)



Source: UNCTAD

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Financial deglobalization (2/2)

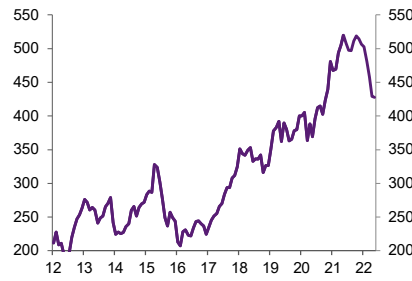
Deceleration in bilateral portfolio flows has been more notable between the US and China, at least in terms of holding of safe assets. The reduced ownership in Chinese assets is also seen by more foreign investors due to the loss of confidence.

China's holding of US treasuries (USD tr)



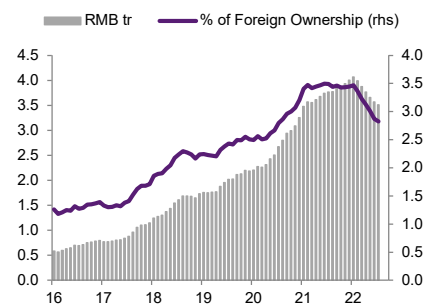
Source: TIC

US holding of Chinese long-term securities (USD bn)



Source: TIC

China: Foreign Bond Ownership



N.B. Data as of July 2020. Source: China Central Depository & Clearing, Shanghai Clearing House, CEIC

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Conclusions

- The slowing of the globalisation process, appears to have started in 2008, at least for trade, global value chains and foreign direct investment. The deceleration in trade and FDI globally has been fueled recently by the strategic competition between the US and China. COVID-19 has been a second very important factor pushing deglobalisation.
- The deglobalisation of trade is happening in terms of value and volume of gross trade and also in terms of the importance of global value chains. In other words, there are signs of a reduction in the exchange of intermediate goods between countries as a way to exploit comparative advantage and specialisation gains.
- Beyond trade, technology decoupling between the US and China is seen in reduced approvals for export licenses, limits on use of hardware and the attempts of outright bans on software.
- International flows of people have seen sharper declines in the wake of COVID-19, which is recovering but far from completely given China's adoption of the dynamic zero-Covid strategy and the sheer size of its population.
- Finally, the trend towards deglobalisation is much less evident for finance, with the exception of FDI, though increasing attempts to decouple particular types of financial flows are emerging, including pressure to delist Chinese companies from US stock exchanges and the imposition of sanctions for transactions with certain Chinese companies and individuals



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